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Message Text

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64
ACTION EB-06

INFO OCT-01 ARA-06 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-05

INT-05 L-01 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

SCI-02 SP-02 SS-15 STR-01 TRSE-00 FRB-01 PA-01 PRS-01

USIA-06 DRC-01 /080 W
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R 152021Z OCT 74
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 6278

C O N F I D E N T I A L CARACAS 10212

EO '(252 GDS

TAGS: ENRG VE

SUBJ: EFFECT OF CREOLE PETROLEUM OF RETROACTIVE VENEZUELAN
INCOME TAX

1. ROBERT DOLPH, PRESIDENT OF CREOLE, TODAY INFORMED DIRECTORS
OF US CHAMBER OF COMMERCE THAT CREOLE HAD SUSTAINED A LOSS
ON FIRST SIX MONTHS' OPERATIONS THROUGH IMPOSITION OF VENEZUELAN
3 1/2 PERCENT INCOME TAX RETROACTIVE TO JAN 1 OF THIS
YEAR. HE SAID THAT IN THE FIRST TWO QUARTERS CREOLE HAD MADE A
PROFIT OF ROUGHLY 80 MILLION DOLLARS, AND IN GOOD FAITH DECLARED
AND PAID DIVIDENDS ON THE BASIS OF THAT PROFIT.HOWEVER, WITH THE
ANNOUNCEMENT OCT 1 OF THE RETROACTIVE TAX, OF NECESSITY THE
COMPANY WAS NOW OPERATING IN THE RED. PARENTHETICALLY, CREOLE
POINTED OUT THAT ALTHOUGH OPEC RESOLUTION RECOMMENDED THAT
MEMBER STATES IMPOSE A FLAT 3.5 PRCENT INCREASE IN TAXES ON THE
OIL COMPANIES, VENEZUELA WAS THE ONLY COUNTRY IN OPEC WHICH HAD
INSISTED ON MAKING THIS TAX RETROACTIVE TO JAN 1. HE OFFERED
THE COMMENT THAT VALENTIN HERNANDEZ, MINISTER OF MINES AND
HYDROCARBONS, HAD PROTESTED IN THE VENEZUELAN CABINET OVER THE
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RETROACTIVITY FEATURE; BUT SAID THAT HE HAD BEEN OVERBORN BY

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ARGUMENTS OF MINISTER OF FINANCE HURTADO WHOSE VIEW ULTIMATELY PRESIDENT PEREZ RATIFIED.

2. DOLPH SAID THAT UNDER A MAJORITY OF CREOLE'S CONSUMER CONTRACTS THERE IS A CLAUSE PERMITTING A RETROACTIVE PASSING ON OF INCREASED COSTS UP TO A LIMIT OF 60 DAYS. IN CONSEQUENCE, CREOLE HAS FORMALLY NOTIFIED ITS CONSUMERS THAT IT WILL APPLY THIS COST AND THUS FOR THE FIRST PERIOD OF 60 DAYS AND THENCE AFTERWARDS PASS ON THE TOTALITY OF THE INCREASED INCOME TAX TO CONSUMERS. THIS PRESUMABLY WILL BE REFLECTED IN HIGHER COSTS TO US AND OTHER CONSUMERS. WHEN I ASKED DOLPH WHAT HE ESTIMATED THE AVERAGE INCREASE MIGHT BE, HE REPLIED 40 CENTS A BARREL.

MCCLINTOCK

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Disposition Authority: boyleja
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Review Event:
Review Exemptions: n/a
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